

# CPA Financial Planning Thought Leadership: Investment Planning

## Presented by:

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# About the PFP Section & PFS Credential

- ▶ The **AICPA Personal Financial Planning (PFP) Section** is the premier provider of information, tools, advocacy and guidance for CPAs who specialize in providing estate, tax, retirement, risk management and/or investment planning advice to individuals, families and business owners. (Learn more at [aicpa.org/PFP](https://aicpa.org/PFP).)
- ▶ The **Personal Financial Specialist (PFS) program** allows CPAs to gain and demonstrate competence and confidence in providing estate, tax, retirement, risk management and/or investment planning advice to individuals, families and business owners through experience, education, examination, and a resulting credential. (Learn more at [aicpa.org/PFS](https://aicpa.org/PFS).)

# A CPA Financial Planner is a trusted advisor who...

- ▶ Operates at the highest professional level when delivering PFP services to clients, acting in the clients' best interest.
- ▶ Adheres to high standards as required by the Code of Professional Conduct and the Statement on Standards in PFP Services through the application of objectivity, integrity, due care and competence required by CPAs.
- ▶ Is regulated by state boards of accountancy.
- ▶ Integrates advanced planning concepts, including tax and business considerations, with the entire financial plan.

# Introductions

- ▶ **Lyle Benson, CPA/PFS, CFP® (Moderator)**  
*L.K. Benson & Company*
- ▶ **Joanne Hagopian, CPA, CGMA**  
*Lyra Management LLC*
- ▶ **Scott Sprinkle, CPA/PFS, CGMA, CFP®**  
*Sprinkle & Associates LLC*  
*Sprinkle Financial Consultants LLC*
- ▶ **Thomas Trainor, CPA, CA, CFA®, CFP®, CLU®**  
*Hanover Private Client Corporation*

# Agenda

- ▶ **Client communication framework**
- ▶ **Real returns**
- ▶ **Intersection of tax planning and investment strategy**
- ▶ **Current market conditions**
- ▶ **Private business/alternative investments**
- ▶ **Human capital**
- ▶ **Retirement planning**

# Client communication framework for investment planning

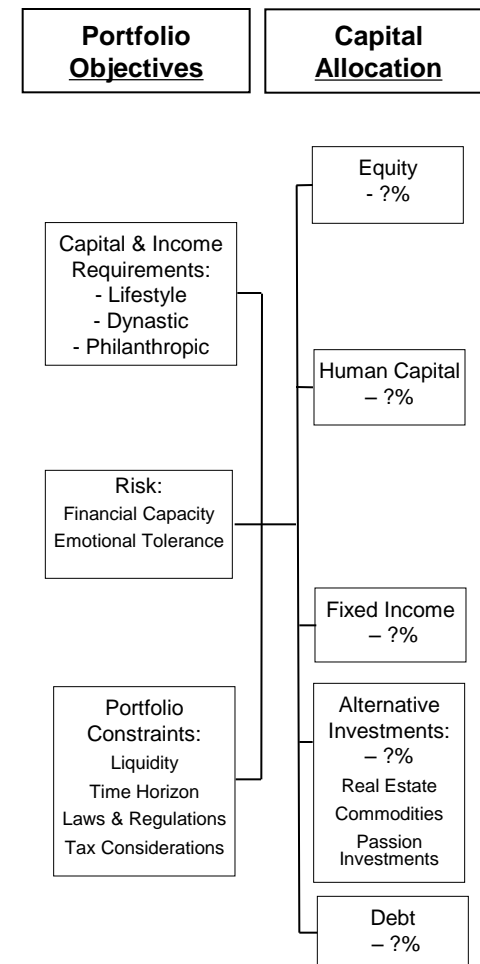


# Client communication framework for investment planning

## ▶ Begin with the client's portfolio objectives

- These are derived from the client and/or their circumstances

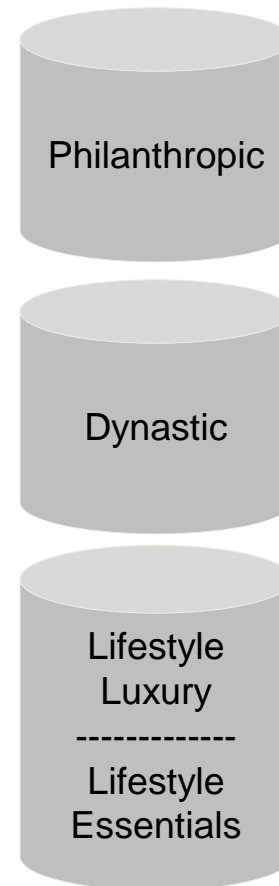
## ▶ Portfolio objectives determine how capital should be allocated



# The key to planning emanates from the client's capital & income requirements

- ▶ **Prepare a cashflow analysis**
- ▶ **Requires clients to prioritize**
- ▶ **Differentiate between:**
  - Required and contingent spending
  - Needs and wants

## Capital & Income Requirements



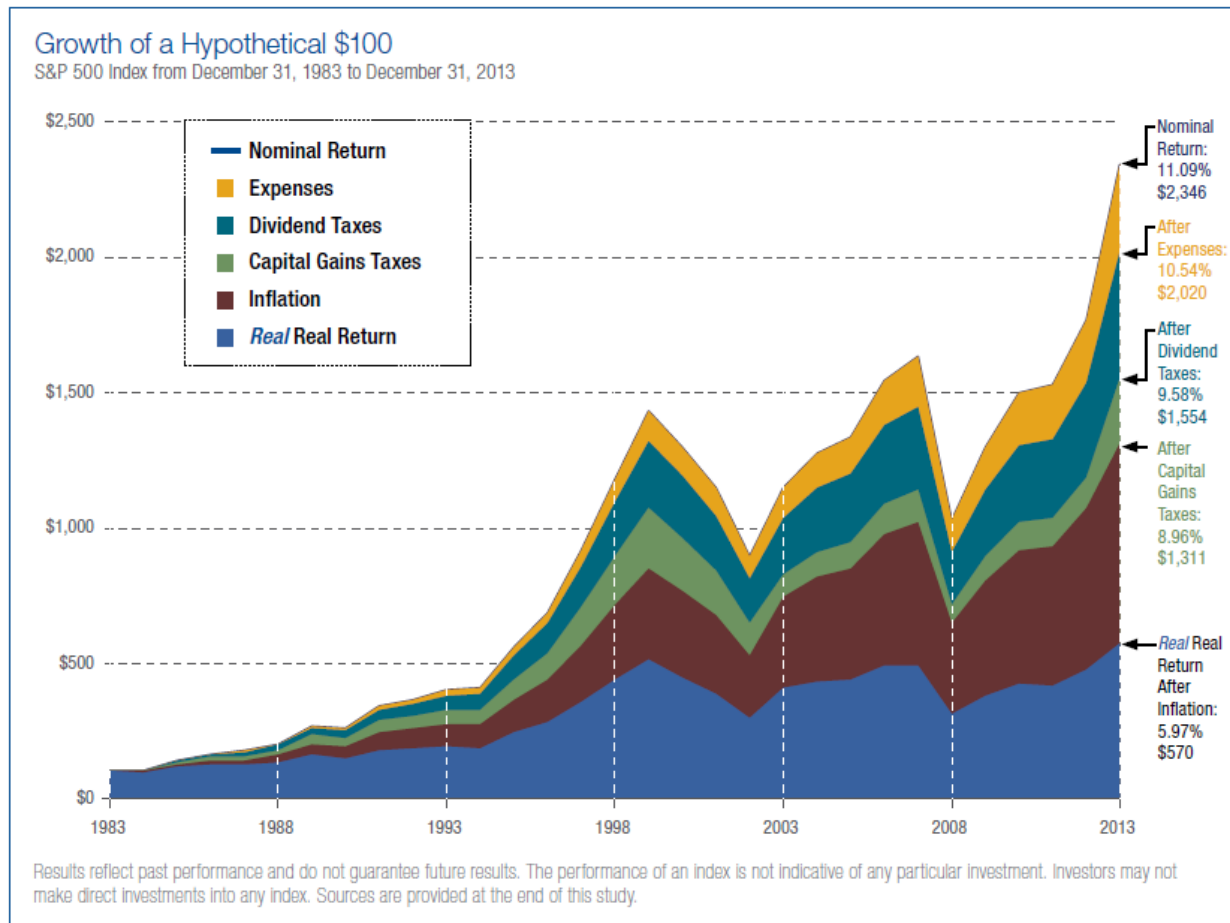
# Other communication tips

- ▶ **Separate yourself from the competitors by how you communicate with clients**
- ▶ **Encourage clients to focus on the overall plan and their long-term goals and time horizon rather than rates of return**
- ▶ **Importance of revisiting the plan regularly**

# Real returns

# Real returns after tax/fees/inflation

## ▶ “A Study of *Real* Real Returns” Thornburg Investment Management



Source: “A Study of *Real* Real Returns” Thornburg Investment Management, Inc. (2014)

# Intersection of tax planning and investment strategy

# Intersection of tax and investment planning

- ▶ **Impact of the American Taxpayer Relief Act and the net investment income tax on investment planning including asset placement and portfolio structure**
  - Accelerated tax brackets for wealthy taxpayers
  - 3.8% Net investment income tax
- ▶ **Multi-year planning and multi-generational-planning tied to the investment strategy**
- ▶ **Balancing tax planning with other factors when looking at a portfolio or plan**
- ▶ **Applying judgment when looking for after-tax information to make decisions**
- ▶ **How to manage trust distributions and assets held in trusts vs. personal names**

# Managing tax brackets

Determining The Marginal Tax Rate For Various Types Of Income In 2014

Individual income above...	Couple's income above...	Income "type"	Ordinary Income	AMT rate	L/T gains & qual. dividends	Wage earned income	Self-employed earned income	Net inv. income	Itemized deduction phaseout (Pease)	Personal exemption phaseout (PEP)*	AMT exemption phaseout
\$0	\$0	Taxable	10%	26%	0%	7.65%	15.30%	0%	0%	0%	0%
\$9,075	\$18,150	Taxable	15%								
\$36,900	\$73,800	Taxable	25%								
N/A	\$117,000	Earned									
\$89,350	\$148,850	Taxable	28%	15%	7.65% / 1.45%	15.3% / 2.9%	0%	0%	0%	6.5% / 0%	
\$117,000	N/A	Earned									
\$117,300	N/A	AMTI									
N/A	\$156,500	AMTI									
\$182,500	\$182,500	AMTI	33%	28%	1.45%	2.90%	0%	0%	0%	6.5%	
\$186,350	\$226,850	Taxable									
\$200,000	\$250,000	Earned									
\$200,000	\$250,000	AGI									
\$254,200	\$305,050	AGI	35%	20%	2.35%	3.80%	3.80%	1%	1%	0% / 1%	
\$328,500	N/A	AMTI									
\$376,700	N/A	AGI									
\$405,100	\$405,100	Taxable									
N/A	\$427,550	AGI	39.6%	1.05%	0% / 1.1%	0% / 7%					
\$406,750	\$457,600	Taxable									
N/A	\$487,700	AMTI									
								1.2%	0%	0%	

Income thresholds based on estimated 2014 inflation adjustments (where applicable).

Where two rates are shown, the first applies to individuals, the second to married couples

\* Phaseout per exemption

© 2014 This chart was originally created by Michael Kitces for the November/December 2012 issue of The Kitces Report.

[www.kitces.com](http://www.kitces.com)



# Incorporate deferred income tax in asset allocation decisions

## ▶ A dollar is not a dollar...

	<u>Amounts</u>				<u>Percentages</u>			
	<u>Growth</u>	<u>Income</u>	<u>Cash</u>	<u>Total</u>	<u>Growth</u>	<u>Income</u>	<u>Cash</u>	<u>Total</u>
Portfolio value	\$600,000	\$400,000	\$0	\$1,000,000	60%	40%	0%	100%
Deferred income tax	<u>200,000</u>	<u>25,000</u>	<u>0</u>	<u>225,000</u>				
Net portfolio value	<u>\$400,000</u>	<u>\$375,000</u>	<u>\$0</u>	<u>\$775,000</u>	52%	48%	0%	100%

# Current market conditions

# Current market conditions

- ▶ **Outlook for interest rates/inflation**
  - Impact of end of QE
- ▶ **Strategies for fixed income**
- ▶ **Cash reserves**
- ▶ **Determining where to take the risk in your portfolio and educating your clients on risk/yield**
- ▶ **Risk tolerance/capacity**

# The evaluation of risk evolves around two dimensions

The evaluation of risk is one of the primary determinants of the client's strategic asset mix and incorporates:

## ▶ Financial capacity for risk

- Calculated amount based on an iterative process
- Function of capital and income requirements and the amount and nature of the client's assets

## ▶ Emotional tolerance for risk

- Ability to deal with the volatility of different asset classes
- Can be modified over time through client education

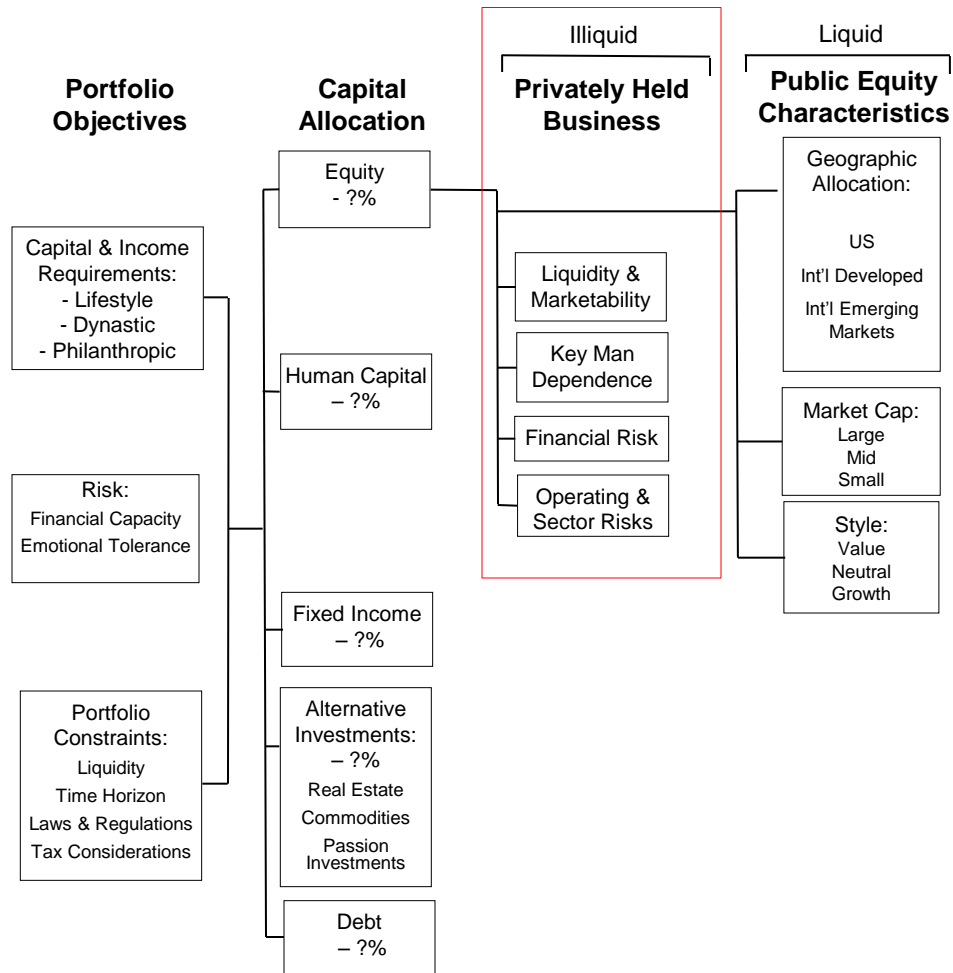
***Financial capacity determines maximum allocation to risk. Emotional tolerance can only reduce that risk level, not increase it.***

# Private business and alternative investments

# Alternative investments

- ▶ **Availability to mass affluent versus high net worth investors**
- ▶ **Considerations**
  - Volatility
  - Liquidity/flexibility
  - Expense ratios
  - Tax efficiency
  - Asset placement
  - Return expectations

# Private business doubles as an employer & an investment

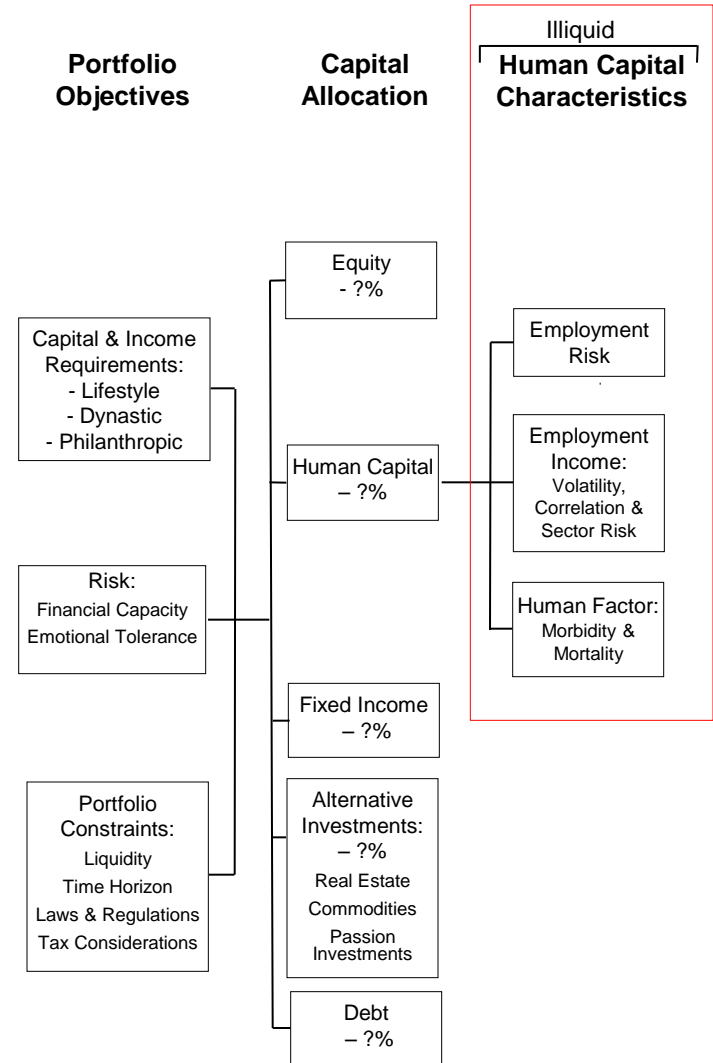


# Human capital



# Human capital is an integral part of the capital allocation decision

- ▶ **Human capital: income generating capacity of an individual**
- ▶ **Critical factors in assessing it include mortality and morbidity**

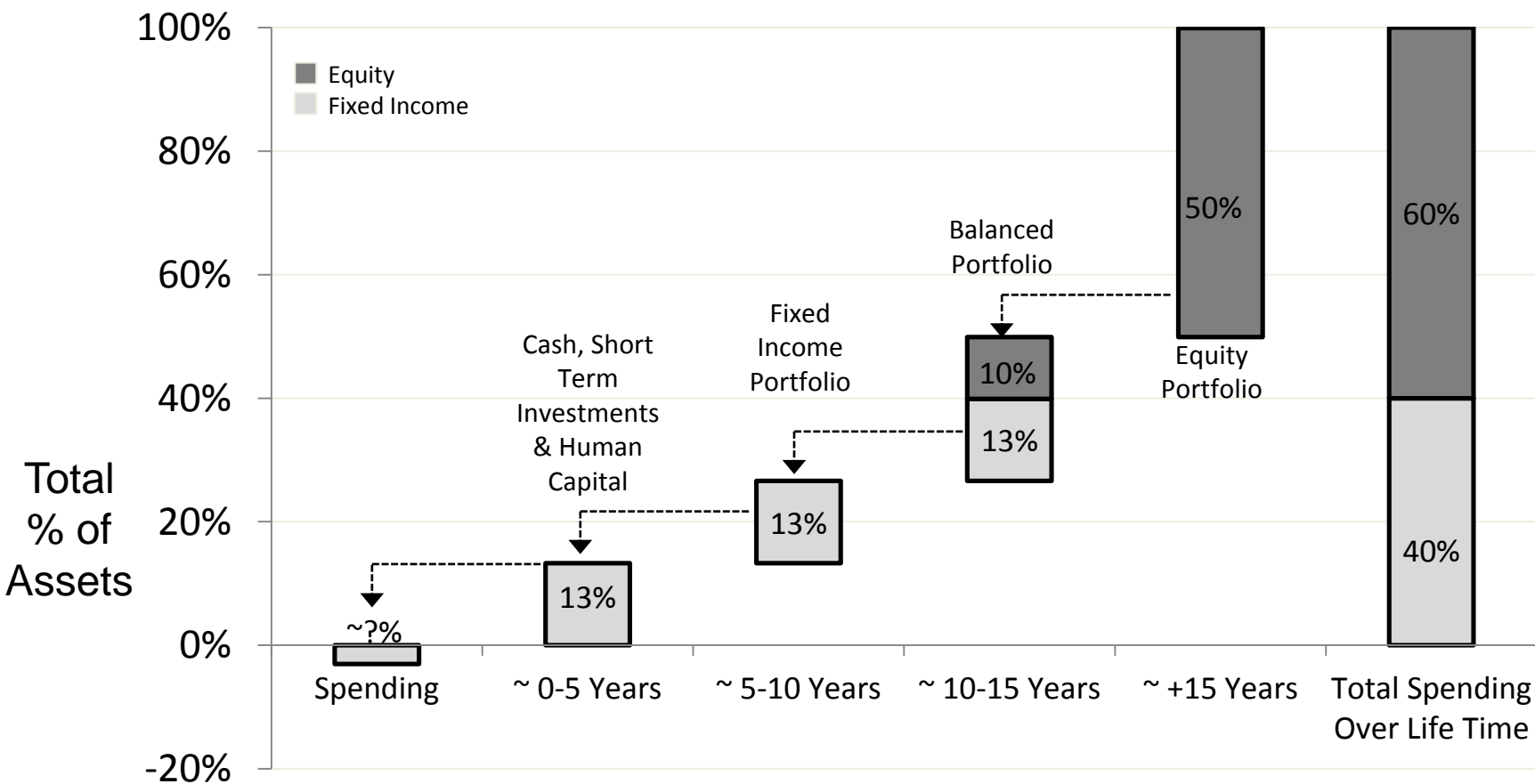


# Retirement planning

# Retirement planning

- ▶ **Thoughts on research and implementation of rising equity glide path, safe withdrawal rates (“4% rule”), sequence of returns**
- ▶ **Educating clients on drawdown**
- ▶ **Proactively adjusting the plan for spending early and late in retirement**
  - Incorporating the three phases of retirement spending as well as the market
  - Incorporating maximum flexibility into the plan.
- ▶ **Balancing the academic research with emotional/psychological/”life” aspects**
- ▶ **Bucket strategy to try to address cash flow needs**

# Bucket Strategy: Matching Your Assets with Your Spending



Your spending defines your overall strategic asset mix.

Example asset allocation based on 60% equity and 40% fixed income asset mix.

# Questions

# Resources for PFP/PFS Members

- ▶ **Investment Planning Resources ([aicpa.org/pfp/investment](https://aicpa.org/pfp/investment))**
  - *The CPA's Guide to Investment Advisory Business Models*
  - *Prudent Practices for Investment Advisors*
  - *Prudent Practices for Investment Stewards*
  - Resources to Assist you in Effectively Assessing Your Clients' Risk Tolerance
  - Bob Veres' *Inside Information*
  - A Listing of Investment Planning Learning Events
  
- ▶ **Forefield Advisor ([aicpa.org/pfp/forefield](https://aicpa.org/pfp/forefield))**
  - Client education and communication tool
  - Written by CPAs, attorneys and other subject matter experts
  - More than 3,000 resources covering personal financial planning, including estate, tax, retirement, investment and risk management planning
  
- ▶ **Visit [joinpfp.org](https://joinpfp.org) to become a member**

# Upcoming PFP Section Events

- ▶ **Webcasts: free for PFP/PFS members without optional discounted CPE**

November 13 1:30-2:30pm ET	CPA Financial Planning Thought Leadership Series: The Outlook for CPA Financial Planning Profession
December 4 1-2:45pm ET	Investment Tax Planning – Creating Tax Alpha
December 16 1-2:45pm ET	CPA/PFS Perspectives on the Next Generation of CPA Financial Planners

- ▶ **AICPA Advanced Personal Financial Planning Conference ([pfp.cpa2biz.com](http://pfp.cpa2biz.com)) – January 19-21, 2015 in Las Vegas**
- ▶ **Implementing PFP Services: Step-by-Step Plans for Success – January 17-18, 2015 in Las Vegas ([2-day session only](#) or [bundle](#) with PFP conference)**
- ▶ **For the full calendar of upcoming PFP Section events, visit [aicpa.org/PFP](http://aicpa.org/PFP) and click on CPE & Events.**
- ▶ **Access the archives at [aicpa.org/pfp/webseminars](http://aicpa.org/pfp/webseminars).**

# Statement on Standards in PFP Services

- ▶ **SSPFPS became effective on July 1, 2014.**
- ▶ **Learn more about the new standards and the resources available to assist you with compliance in the archived sessions\* below:**
  - *Do the New PFP Standards Apply to You?*
  - *Understanding the Requirements of SSPFPS*
  - *Practical Applications: Using the Compliance Toolkit*
  - *Leveraging SSPFPS to Elevate Your Practice*
- ▶ **Upcoming conferences where SSPFPS is on the agenda**
  - [AICPA Advanced PFP Conference](#)\*\* January 19-21, 2015 at Bellagio, Las Vegas
  - Various CPA associations and state societies
- ▶ **Visit [aicpa.org/pfp/standards](http://aicpa.org/pfp/standards)**

\*Archives for PFP/PFS members available at [aicpa.org/pfp/webcasts](http://aicpa.org/pfp/webcasts).

\*\*PFP/PFS and Tax Section members receive additional discounts on the early-bird & AICPA member price.



# CPA/PFS News and Events

## ▶ PFS Referral Program

- Receive 100% credit to apply toward future CPA/PFS dues by referring a CPA to become a PFS or sit for the PFS exam

## ▶ PFS Exam

- Registration open for winter window (December 15 - January 26)
- Discounts, sponsorships and volume pricing available

## ▶ Education Opportunities

- In-depth courses in estate, retirement, tax, investments, insurance, and PFP process
- In-person and online PFP Boot Camp
- Self-study PFS exam review course

## ▶ Learn more at [aicpa.org/pfp/pfs](https://aicpa.org/pfp/pfs)